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SUBJECT: SIERRA LEONE MINISTER OF FINANCE PRESENTS 2010
BUDGET

REF: 2008 FREETOWN 00006

Classified By: PD Officer Danna Van Brandt for reason 1.4 (B)

¶1. (U) SUMMARY: Minister of Finance and Economic Development Samura Kamara presented the Sierra Leone Government Budget and Statement of Economic and Financial Policies for the financial year 2010, titled "Confronting the Future," to Parliament on December 4. The budget includes a comprehensive overview of Sierra Leone's economic and financial status and the government's intended policies in the coming financial year. Coming off of the recent Consultative Group Meeting in London, the Government is looking forward optimistically to increasing flows of financial assistance and foreign investment. END SUMMARY.

FISCAL AND ECONOMIC STATUS

¶2. (U) The Agenda for Change, proffered by President Koroma shortly after taking office, has stated priorities including urban and rural energy, enhanced agricultural productivity, improved infrastructure, affordable, quality health care, education, and sanitation services. In addition, the Government has placed emphasis on economic growth and an overall improvement in quality of life. While they note progress in many of these areas, the income per capita, life expectancy, literacy rates, and access to safe drinking water are among the lowest in the world. Growth rates remain below the levels needed to make significant progress in poverty reduction.

¶3. (U) In light of the global economy beginning to show signs of recovery, the 2010 budget centers around the theme "Confronting the Future," which will include tough policy decisions to balance economic growth and human development. The Government of Sierra Leone seeks to address both short-term socio-economic needs and laying the foundation for long-term economic growth. To that end, it seeks to:

- boost investment in infrastructure,
- eliminate barriers to private sector growth,
- support productive sectors of the economy, and
- improve delivery of health care, education, and water services.

¶4. (U) Looking into the future, the budget forecasts real output growth at 4.7 percent in 2010, and hopes to see further growth to 6 percent by 2012, contingent upon the global economic recovery. While inflation in 2009 remained high, it is expected to fall to 8 percent in 2010 and stay in double digits through 2012. To support those predictions, the government will need to see recovery in agricultural and mining exports, to reduce the trade deficit from 9.4 percent in 2009 to 8.7 percent in 2010.

MONETARY POLICY

¶15. (U) The Government intends to gear monetary policy toward containing inflation and stabilizing the exchange rate. Note, the value of the Leone has dropped by 30 percent relative to the dollar in the last year. The Bank of Sierra Leone is being charged with forecasting the need for liquidity, and using that information to guide the auction of securities. An additional Le 50 billion (approximately USD 12.6 million) in non-negotiable, non-interest bearing securities will be converted into marketable securities. Reserve currency is targeted to grow by 13 percent in 2010 to allow for expansion in private sector credit and a build-up of foreign reserves.

¶16. (U) The Sierra Leonean national debt stood at USD 662 million as of June 2009, USD 250 million of which is owed to commercial creditors. The World Bank has provided some debt relief assistance, but the Government intends to implement a debt buy-back operation in 2010. In addition, the Government has secured financing from the African Development Bank to develop a National Debt Law to provide a framework for borrowing policy and debt management practices.

¶17. (U) Improving the investment climate has been a key goal of the Government of Sierra Leone, and in the past three years it has climbed 20 places in the World Bank's Doing Business Report. However, obstacles remain to attracting investors, including high intermediation costs, scant information on investment prospects, poor infrastructure and public services, and the nation's international image. The Government has put in a number of mechanisms to begin to eliminate these obstacles, including a Financial Sector Development Plan, a series of Public-Private Partnerships aimed at public works projects, and the Investment Promotions

Act.

WHERE THE MONEY COMES FROM

¶18. (U) Total revenue is projected at Le 1.41 trillion (approximately USD 357 million), including external grants. Of that, domestic revenue is expected to be Le 844.1 billion (approximately USD 213.7 million), and external grants are expected to be Le 567.5 billion (approximately USD 143.7 million). Of the domestic revenue, 26.1 percent is to come from income taxes, 7.6 percent from corporate taxes, and 14.2 percent from personal income taxes. Customs and excise duties will account for 52.0 percent. The proposed but not yet implemented Goods and Services Tax is projected to contribute only 0.1 percent of GDP in 2010. Of the external funds expected in 2010, USD 64.3 million will come in budget support, and USD 4.1 million will come as debt relief. An additional Le 317.8 billion (approximately USD 80.5 million) is expected in project grants.

¶19. (C) Foreign assistance currently accounts for 18 percent of GDP, and the Government intends to yield tighter controls over where it is spent, ensuring it is in line with the Government's priorities. The Government intends to funnel all assistance funds through "harmonized modalities," to ensure oversight and coordination. COMMENT: One NGO source told EmbOff that they had been informed by the government that all hiring decisions, including for positions with INGOs must be made through the Ministry of Labor henceforth. This is in synch with the Government's stated intention to exert greater control over assistance funds and programs. END COMMENT. To that end the World Bank has set up a multi-donor Trust Fund, which will be structured around broad sectoral priorities, and implemented through specific projects identified by the Government. DFID has already indicated its intent to contribute 15 million pounds over a five-year period to the Fund.

WHERE THE MONEY GOES

¶10. (U) Non-Discretionary Payments: The Government is in the midst of restructuring pay and grades for public sector workers, with the aim of creating a pay scale that will attract, retain, and motivate quality staff. Meanwhile, the Government proposes a 13 percent increase to the wage bill, including a minimum pay increase of 20 percent for civil servants, teachers, police, military, prisons, and fire fighters. In addition, it includes hiring 2000 new teachers and 1000 new police officers in 2010. Interest payments in 2010 are projected at Le 137.6 billion (approximately USD 34.8 million), bringing total nondiscretionary funding obligations to USD 149.6 million.

Discretionary Payments: Based on its outlined priorities, the Government has allocated resources as follows:

- Sierra Leone Roads Authority: Le 312.9 billion, or USD 79.2 million
- Ministry of Agriculture: Le 118.3 billion, or USD 30.0 million
- Ministry of Education, Youth, and Sports: Le 91.5 billion, or USD 23.2 million
- Ministry of Health: Le 97.1 billion, or USD 24.6 million
- Ministry of Energy and Water Resources: Le 82.2 billion, or USD 20.8 million
- Local Councils: Le 70.4 billion, or USD 178.1 million
- Ministry of Defense: Le 41 billion, or USD 10.4 million
- Police: 25.8 billion, or USD 6.53 million
- Prisons Department: Le 9.9 billion, or USD 2.5 million
- Parliament: Le 9.5 billion, or USD 2.4 million
- Audit Services: Le 9.4 billion, or USD 2.4 million
- Anti-Corruption Commission: Le 8.4 billion, or USD 2.1 million
- Statistics Sierra Leone: Le 5.8 billion, or USD 1.5 million
- Office of National Security: Le 4.5 billion, or USD 1.1 million
- Ministry of Marine Resources: Le 3.2 billion, or USD 810,000
- Fire Force Department: Le 2.6 billion, or USD 658,000
- Immigration Department: Le 1.6 billion, or USD 405,000
- Environmental Protection Agency*: Le 1.3 billion, or USD 329,000
- Law Officers Department: Le 1.2 billion, or USD 304,000

Total: Le 896 billion, or USD 387 million

* Note: This is an Agency to be created in 2010.

¶11. (U) Given huge expenditures to fund President Koroma's Agenda for Change, the budget deficit is expected to increase E

from Le 758.6 billion (approximately USD 192 million) to Le 926.7 billion (approximately USD 235 million) in 2010. However, with foreign grants added in, total deficit will be calculated at Le 359.2 billion (approximately USD 91 million), or 5 percent of GDP.

POSSIBLE RISKS

¶12. (U) The Government outlined three possible risks to the soundness of the budget:

- fluctuations in the already-plummeting exchange rate,
- additional budgetary requests, and
- continuing government regulation of petroleum prices.

¶13. (C) To minimize these risks, the Government proposes eliminating government regulation of petroleum prices, in favor of allowing the prices to fluctuate as the market dictates, including the changing price of oil and the changing value of the Leone. COMMENT: While deregulation of petroleum prices may appear to be a prudent financial decision, it will hinder several of the government's other goals. By increasing the price of transportation and operating expenses for businesses, it will increase consumer prices, driving inflation further up. The Government also

seems to downplay the severity of the devaluation of the Leone, and its effect on Sierra Leoneans' abilities to make ends meet. Rising oil prices combined with further devaluation of the Leone could exacerbate already tense situations for Sierra Leoneans who only barely eke out a living now. If the shortages and crowds that accompanied the last change in petrol prices are any indication, price spikes could seriously threaten stability. END COMMENT

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